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HUMAN EVENTS

Vol. XVI, No. 41 Wednesday, October 14, 1959 Washington, D. C.

News Section

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Problems for Nixon: The Vice President rides high in the headlines, rides even higher in the findings of the pollsters. But his backers, well aware that news is fickle and the polls are not scientifically accurate, anxiously ponder problems that must be solved before Nixon can nail down the GOP nomination.

For one matter — if Nixon GHQ doesn't know it, HUMAN EVENTS does — the Rockefeller forces have scheduled a big publicity blitz beginning about the middle of October, which will operate on two levels: (1) On the high level, the Governor will begin a series of about 30 speeches, couched in lofty terms and deploying his political ideas; and (2) on the literal low level, via various stooges and "spots" in the media of communications, will come a bitter dissection of Nixon personally.

The Madison Avenue hatchet men, mobilized for the latter job, will seek to depict the Vice President as a complete "chameleon," without principles or character, and the favorite epithet —fondled by the hatchet publicists—will be "synthetic."

The development of this smear campaign against the man who stood up against Khrushchev in Moscow may backfire. But meanwhile Capitol Hill will watch to see just which pundits lend themselves to this venture in character assassination; their names will not be forgotten. Nixon, fortunately, now possesses a first-rate, if small, publicity staff, under the skilful Herbert Klein, former editor of the San Diego *Union*.

However, the problem which most concerns Nixonites is organization. The Vice President cannot risk losing valuable forums by coming out officially as a "candidate": that is, Ike might not give him this or that mission to perform as he has in the past. Yet some sort of Nixon-for-nominee organization is badly needed—all the pros recognize this.

For instance in New Hampshire (key first inning of the primary series next spring), Rockefeller forces have already created a formidable organization. The center of it lies in Dartmouth College, Nelson's alma mater, where the 250-man faculty is active and vocal and enjoys great prestige among the citizenry throughout the state. Evidences of the long hand of the Rockefeller billions in New York are reportedly becoming noticeable—as prominent men throughout the state appear on the Rockefeller side. This is no mere coincidental pattern. Similar phenomena appeared in New York State in 1958, when telephone calls from Manhattan appealed to prominent men upstate to back Rocky against Len Hall during the famous blitz which gave Nelson the nomination.

Nixon advisers, while happy over poll results in the Granite State, are worried about the lack of a Nixon organization there. They know that Nixon's striking New Hampshire success in 1956 did not "just happen."

In that year the Vice President got over 20,000 write-ins on the primary ballot—a phenomenon which crushed Stassen's hope of defeating Nixon for the No. 2 spot that year. Nixonites know that their friends in Concord, by energetic, well-planned action, organized and pulled off this write-in success.

Going back further, the unhappy experience of Senator Taft in 1951-2 is recalled as a warning. Taft started late with his campaign in the last months of 1951—partly due to the illness of his wife. A New Hampshire post card poll in November conducted by the Senator's aides was encouraging. But no organization began in the Granite State for Taft until January, 1952, a scant two months before the primary, while the Ike boosters had been working for many months. Finally, insufficient effort was made to line up the New Hampshire Governor, Sherman Adams. The result was a Taft defeat at the outset of the primary race—a bad psychological blow.

Today, while the powerful Senator Bridges has come out strongly for Nixon, Governor Wesley Powell hesitates; and no organization for Nixon exists. However, prominent Nixon backers are contemplating setting up a "Volunteers for Nixon" group to stir up the masses of GOP voters, and particularly to reinforce the Nixon trend among party officials and precinct workers. For "primary day is politicians' day," and before next March,

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this vital problem must be licked by organizing for a Nixon victory.

British Election: Conservatism is on the march. The British Conservative party scored a smashing victory over the Socialist Labor party which sought, by extravagant promises of inflationary spending, to bribe the electorate. The "spend and spend, elect and elect" strategy failed miserably. Labor party pledges to push nationalization of industries and to demand admission of Red China to the UN met with a chilly response. Additionally, an irresponsible strike during the last week of the campaign fed rising distrust of labor union power and may have swayed many votes.

The Issue — Featherbedding: The current dockers' strike, coming on top of the steel shutdown, projects the problem of featherbedding to top rank among issues creating a national labor crisis. No longer is featherbedding merely a fantastic curiosity, limited to railroads, the building trade and theaters. Today, featherbedding signifies widespread inefficiency and wastage, built into American industry by trade union rules. As a result of the company leaders' gallant fight to preserve their markets and solvency, featherbedding has now come to the fore not only (as HUMAN EVENTS pointed out on August 12, 1959) in rails, building, theaters, but in steel, autos, textiles and—prominently—shipping.

Alexander Chopin, chairman of the New York Shipping Association, came out with it: "The industry simply has to eliminate featherbedding, dead time and antiquated methods of doing business if it hopes to survive and continue competitive with trans-ocean airlines, the St. Lawrence Seaway and other methods and routes of transporting goods. Productivity on the docks has dropped so seriously and wages have skyrocketed so high since 1950 that our steamship industry is threatened with being priced out of existence unless cargo handling operations can be made more efficient and waste ended."

As news reports emphasize that the wage factor is secondary to featherbedding in the dockers' strike, Chopin says that the shipping business feels it is entitled to expect a full day's work for a full day's pay on the docks, as well as improved efficiency and the right to bring in new methods of handling cargo.

Chopin made clear that the International Longshoremen's union stubbornly insisted on its "right to inefficiency" even after the industry offered generous pay increases, and he stressed that the economic plight of the steamship industry, which has still not recovered from the 1957 recession, is a "serious one."

(For detailed accounts of the practice of featherbedding, see Frank Chodorov's articles "Featherbedding: Robbery Made Legal" and "Bleeding the Railroads," in HUMAN EVENTS for April 1, 1959, and July 1, 1959, respectively; also "Labor and the Broadcasting Industry," by Lee Edwards, in HUMAN EVENTS for August 26, 1959.)

Reversal on Foreign Aid: Much commotion arose on Capitol Hill after Secretary of the Treasury Anderson urged European nations to take over some of the burden of foreign aid which we have been carrying. For the legislative arm of the Government has voiced increasingly popular sentiment to cut down spendthrift foreign assistance programs demanded by the Executive. Both Democrats and Republicans—such as Bridges and Thurmond in the Senate, Gross and Passman in the House—have fought bitter battles for slashes of international boondoggling. Now, not only Secretary Anderson (see last week's HUMAN EVENTS), but also "liberal" pundits, who formerly assailed such far-sighted legislators as Bridges and Passman for "isolationism," are executing somersaults. Capitol Hill wryly notes how pundit Walter Lippman last week finally recognized that fiscal solvency takes precedence over foreign giveaway. (Lippman's contortions, which once earned him the sobriquet of "Operation Cross-eyed," draw much comment among observers in Washington.)

Senator Bridges, whose utterances command serious attention all over Capitol Hill, gave HUMAN EVENTS the following declaration within the past 24 hours: "The time of the steam shovel approach to foreign aid is now over. We have flung our aid recklessly around the world. I have been and am now for foreign aid on a selective basis, without waste and with careful discrimination. Foreign aid should be sent only to those nations on whom we can rely and who have shown evidence of helping themselves. Such recipients must share our objective of freedom. Too much of our aid has been wasted for other purposes. This wastage must stop.

"For years, I have advocated this prudent course and have been criticized by 'liberals' for my stand. Now the movement of economic forces is changing some of these hand-out advocates around. In the future, I think we'll have to take the selective, prudent policy. We can no longer throw foreign aid around with a shovel."

Admiral Ben Moreell, Chairman of the Board of Trustees of Americans for Constitutional Action (408 First Street, S.E., Washington 3, D. C.) comments: "It is high time that we take such a step towards reducing irresponsible Government spending. Fiscal responsibility, as advocated for years by conservatives, must be maintained if the United States is to continue as the most important bastion of freedom and protect our individual liberties."

Business on the K Visit: American business has delivered quite as realistic a verdict on the Khrushchev visit as has President George Meany of the AFL-CIO. President Erwin Canham of the US Chamber of Commerce warned last week that despite Soviet policy changes there has been "no convincing evidence" that Soviet leaders have abandoned the principles of international communism. "What has changed," said Canham, "is not the purpose motivating the Soviet regime, but the techniques designed to achieve this purpose."

He also warned that the Russians may be launching a "new peace offensive" to dull the sharp edge of our alertness.

At the same time, the Chamber of Commerce (in its *Washington Report* of October 2) reveals that American business has no illusions about the lure of trade with Russia. "In this new phase of the cold war, businessmen are 'up front.' Communists don't do business; they do

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politics. Trade to them is merely a tool for Government, a political weapon. The Government controls materials, labor, production, markets. Costs are ignored; political goals determine prices. Chief aims are to disrupt free world economic and political ties, undermine free enterprise, strengthen Communist power at home and abroad. In short, to put you out of business."

Not Merely Gossip: Along Diplomatic Row, a question is currently propounded—the question, as a matter of fact, which is most frequently asked in Washington today. It is: "Since K has removed the time limit on Berlin negotiations, what has Ike promised him in return?" So far no clue to the answer has been found among informed quarters. Meanwhile this question haunts the minds not only of foreign envoys from the free world countries, but also of staffs of members of Congress—all of whom fear a sell-out.

● "Charlie Halleck Day," celebrated in Indiana last week, drew approving comment on Capitol Hill. Almost forgotten are the days—not so long ago—when the present House Republican leader enjoyed a venture into "Modern Republicanism." But the last session, with Halleck installed as leader in place of Joe Martin, changed all that and the Indiana Congressman is credited with revival of the "old coalition" of Democratic and Republican conservatives and, to boot, no little influence on Ike who went to bat for the conservative Landrum-Griffin labor bill. Today not a few who opposed Halleck's elevation to the leadership last winter now admit the change was for the better.

● The Roosevelts are still milking the White House with a book by Jimmy, *Affectionately, FDR* (now running as a serial in the *Saturday Evening Post*). In it he tells how he and Elliot decided to horsewhip Westbrook Pegler, then reconsidered. Pugilistic consensus: They're lucky. The tough Peg could whip a barrelful of Roosevelts.

The FBI Story—Leftist Version: Last week, under the fetching title, "My Secret Life With J. Edgar Hoover," Dorothy Schiff, publisher of the ultra-leftist *New York Post*, kicked off a series on Hoover and the Federal Bureau of Investigation in a transparent smear of America's foremost safeguard against communism and crime. The *Daily Worker* at its peak couldn't have given the project a bigger college try.

After her lead remarks, in which she intimated that J. Edgar Hoover is indiscreet, abusive of power, dangerous and injudicious, unsuited for his job, and worst of all, ultra-conservative, Dolly launched into the surefire terms geared to provoke "liberal" passions rather than analytical thought.

Having set the mood in this objective manner, Mrs. Schiff and a battery of Post *reporters, by opinion and innuendo (an excellent example of that paper's interpretative reporting), attempt to undermine the very nature of the FBI and Hoover's character (Mrs. Schiff states twice between sly references in one article: ". . . we have no scandal to present about Mr. Hoover's personal life").*

By their tone, the *Post's* would-be muckrakers imply that what they find truly scandalous is the rebirth of conservative spirit in America and the recent flow of candid books and novels such as General Alfred Wedemeyer's *Wedemeyer Reports!* and Allen Drury's *Advise and Consent,* which pinpoint "liberal" duplicity, inconsistency, and lack of honor. The "liberals" have been put on the defensive and must attack—fast. The Communist party undoubtedly cheers Liberaldom's latest panzer thrust.

Summing up: A well planned and highly financed injustice toward a great patriotic organization and a perfect 75th birthday present for Mrs. Roosevelt, *Post* columnist —To Eleanor from the gang.

Education: *Teaching the Third R,* an illuminating comparison of American and European arithmetic textbooks, has just been published by the Council for Basic Education. Parents with children in grade school will find this study particularly thought-provoking, but all persons interested in improving US education can benefit from it—in the view of the Capital's education experts.

The authors present disturbing comparisons of the grade levels at which various mathematical processes (fractions, decimals, long division, etc.) are taught—and they show that US texts present these processes a year or more later, in almost every case, than do European texts—*on either side of the Iron Curtain.* This is partly because the average US school spends one to four hours less each week on arithmetic than its European counterpart. But, in addition, American students have to "mark time" in seventh and eighth grades, studying applications of the fundamental processes they have learned earlier, under such titles as "Thrift and Economy"; "Building, Heating and Lighting our Homes"; "Reading the Daily News"; etc. In contrast, European schools spend these two years teaching algebra and geometry (or rather continuing these studies, begun in lower grades), so that eight years of European study cover the same material as ten years of US work.

In a historical postscript the authors point out that American arithmetic teaching *was* similar to European—until the 1930's, when "educationist" writers started padding the texts and teaching subjects in, for example, the fourth grade instead of the third. Now, the NEA bureaucracy has entrenched itself—and authors trying to write old-style arithmetic texts find their publishers unwilling to take a chance on getting the official scorn of the NEA and being condemned to limbo.

Teaching the Third R is available for $1 from the Council at 725 15th St., NW, Washington 5, D. C.

Cuba: In the corridors of the Senate office buildings, there runs much discussion as to when the Senate Internal Security Subcommittee will hold open hearings and release transcripts of its earlier closed hearings on the State Department's role in helping Fidel Castro, the Red dictator, into power in Cuba. It is reliably reported that the "executive hearings" heard the testimony of some former American diplomats with intimate knowledge of what went on in Cuba.

These diplomats placed the onus for Castro's take-over on high officials of the State Department. This would confirm the report in HUMAN EVENTS on January 14,

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1959, that "certain elements in the State Department staged a small-scale repetition of the sell-out in China."

Capitol Hill sources say the hearings material is "so hot" that it is being kept locked in a safe.

The hearings were held during the summer, but it is understood that public release was delayed until after the Khrushchev visit. Today, observers wait impatiently for Subcommittee Chairman Eastland to spread the story before the public gaze.

One question to which Washington hopes the Mississippi Senator has the answer: What is the nature of Castro's relation with international dope rings? For, a UPI report out of Mexico City (which most of the newspapers ignored) states that one Maximino Moya Diaz, alleged leader of such a ring, told a Mexican court that a percentage of his ring's profits went to Castro's Government in March, and a smaller percentage had gone to the Cubans while they were in exile in Mexico, plotting against Batista. Washington sees two possible explanations for this subsidy:

(1) The gang was protecting itself by getting in good with Castro, in case he was successful; (2) The gang may have Communist connections. It is well known here that the Chinese Reds have for years sold opium to free world smugglers to help finance themselves, and it would not be beyond possibility for Moscow to repeat this eminently successful tactic in the Caribbean. So far, Mexico City authorities have not uncovered any Red ties for Moya Diaz and his gang—but whichever explanation is correct, the halo of this supposed modern St. George continues to fade.

Soviet "Growth": The myth of the giant strides supposedly taken by Soviet industry under communism is being systematically dispelled in papers presented to the Joint Economic Committee by top economists — and Khrushchev's claims of catching up with the US by 1970 are being exploded in the process.

For example, Professor G. Warren Nutter of the University of Virginia told the committee, "Despite the fact that the Soviet Union was able to inherit an advanced Western technology at little cost, industrial growth over the entire Soviet period has been less rapid than in the US over the 40 years bracketing the turn of the century, a period more or less comparable in other important respects. *It has also been less rapid than growth in the last half century of the Tsarist era, a less comparable period.*" (Italics added.)

Professor Nutter's statement, based on statistical data and giving the benefit of all doubts to the Soviet period, comes as confirmation of what many Western observers of the Soviet economy have long privately felt but have been unable to prove conclusively. Four years ago, in fact, Professor Nutter himself, after a trip to the Soviet Union, wrote in *US News & World Report:*

"I have the feeling that there would have been remarkable growth of the Russian economy over the last 40 years—far beyond what has been accomplished—if there had been a significant area of private enterprise." His "feeling" has now been backed up with evidence.

Partial evidence for Professor Nutter's statements has been appearing in the West over the past 20 years, since a former French Communist, Boris Souvarine, took Stalin's claims of huge gains apart line by line. Souvarine noted that Russia was out-producing the US in oil by 1900, and in the 1890's "had in six years more than doubled her supply of cast iron and steel, and almost doubled her production of coal and naphtha. . . . And the industrial output was doubled between the Russo-Japanese War (1904) and the World War (1914)." An aide of Khrushchev's, Averki B. Aristov, accidentally confirmed Souvarine and Professor Nutter's statements when he reported in June that 77 of 80 steel mills in Russia proper were built in the 19th or even the 18th century.

In short, Russia was not the "backward giant" in 1917 that the Reds like to think it was.

As to the consumer—Hans Heymann of Rand Corporation pointed out that city dwellers have not benefitted much in housing, clothing or food since the Reds took over, "and so far as peasants are concerned, their levels of consumption may well have shown no increase at all since the beginning of collectivization."

But Professor Nutter sounded a warning for the future of the US which the Joint Economic Committee and Congress should heed: "The driving force within the American economy has been private initiative mobilized by the incentives inherent in a free society. The trend of the day is in the direction of choking incentives. . . . Incentives are being strangled and nothing is being put in their place to drive the machinery of growth."

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HUMAN EVENTS, 408 First St., SE, Washington 3, D. C., is a weekly Washington newsletter. Founded in 1944 by Frank C. Hanighen. Published usually in two sections: a 4-page news section and a 4-page article section. Second-class postage paid at Washington, D. C. Copyright 1959.

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Vol. XVI, No. 41 HUMAN EVENTS October 14, 1959

Article Section

Profits Cannot Finance Wage Rises or Price-Cuts

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By Dr. Arthur O. Sharron

Associate Professor of Economics, Duquesne University

Demands of organized labor to push for wage increases at the expense of profits are both ridiculous and tragic. It is ridiculous because it cannot be done without resulting in a serious deterioration of the economic gains of labor. It is tragic because it endangers economic and political freedom for labor as well as for the country as a whole. While the Nation is engaged in a titanic struggle against Soviet expansion, it is especially disheartening to have to defend the key factor in a free society, namely, profits.

The purpose of this article is to explain why a controversy of wages versus profits is fraught with dangers to our Constitution and way of life so that all who would defend these can take heed and act accordingly. Americans did precisely this when they abandoned Government price controls and when they opposed profit control under price control. The Government treaded lightly when requiring cost absorption by business under price control. The Government reiterated repeatedly that it was not interested in controlling profits. Yet, where the Government feared to tread, organized labor enters heedlessly.

First, we must understand that supply and demand still set prices. The suppliers cannot control what consumers are willing to pay and what amounts consumers are willing to take at those prices.

Second, we must recognize that firms in any industry vary in size and in efficiency for any number of reasons, some of which have little to do with the efficiency of management or workers.

Third, we must realize that to relate wages to profits will require that different wage rates exist in different companies for the same work. Otherwise, prices of similar goods produced by different firms will have to vary. The unions in effect would be in the price-control business. The goods of the efficient companies would be lower priced than those of the other firms. There would be black markets and marginal producers would be forced to the wall.

On the other hand, if instead of differential pricing there are differential wages, then a new industry-wide wage structure would have to be established providing for higher wages for those in certain plants. Union restrictions would police this vast wage structure just as it polices seniority and other restrictions. A new element of exasperation would become operative to thwart and destroy the motivations of all other factors of production.

Where will all this damage and difficulty take place first? The answer is at the margin where the pricing forces are operating, where a whole company either is or is not in business. This can be illustrated rather dramatically in the case of virtually every industry. However, because the steel industry has been engaged in a wages-versus-profits controversy, it might prove to be more interesting to draw some examples from this industry.

Select three steel companies, say, Pittsburgh Steel, Colorado Fuel and Iron, and Sharon Steel. Their combined after-tax net income over the past four years, 1955-1958, inclusive, was slightly over 3 per cent on sales, about one-half the industry average. Does such a profit rate permit any wage payment out of it? Absolutely not! The rate is not even enough to adequately perform the function of expansion and cost reduction.

Actually, this rate would be reduced in half if allowances were made for necessary depreciation in excess of tax-permitted allowances. Also, this does not include reserves for contingencies. The steel industry, just as any capital goods industry, is characterized by an inherent instability often called "prince and pauper."

Thus, out of the true earnings of about 1 1/2 per cent on sales, these companies must either finance their capital expenditures or attract capital from the outside. Most of this capital is in the form of stockholders equity rather than long-term debt. During the four-year period, the former consisted of $4 for every $1 of the latter.

It seems amazing that these companies have been able to make capital expenditures amounting to about 75 per cent in excess of either their allowable depreciation or their aggregate net income. The net income as a per cent of net worth, unadjusted for

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inadequate depreciation set-asides, was 6.5 per cent. Adjusting for insufficient depreciation would reduce this to 3.3 per cent. Further adjusting the net worth from book value to current dollars would reduce this figure to 1.7 per cent. This is hardly enough to attract investors today.

An increase in hourly earnings of say ten cents per hour or somewhat under 4 per cent would clearly place these companies in deficit positions. Employment, which has declined slightly over the period covered, would be wiped out entirely.

There should be no question about the fact that profits must pay for use of capital and therefore constitute an economic rate of interest rather than profits on stockholders equity. Moreover, profits must finance the extent to which depreciation allowances are insufficient since they are based on acquisition rather than on replacement costs. Finally, profits must attract new monies for investment in new equipment, if progressive firms are to keep from being marginal firms.

EVEN FOR THE AVERAGE or above-average firm the wage encroachment on profits is based on fallacious reasoning. It is incorrect to assume that non-wage costs, constituting more than 60 per cent of the value of sales, have not gone up at the same time as steel wages have gone up. In addition, it is fallacious to assume that even without a wage increase, these other costs will not rise. It is commonly accepted that as the prices of raw materials increase, so do the prices of finished goods. Then why should it not be assumed that as wages rise, so will the prices of the finished goods?

Even if labor had the power, through Government regulation, to prevent other contributors to the production process from receiving what consumers have voted through their purchases to allocate to them, the result would be relative stagnation of production and investment at a time when the growing labor forces require the utmost in economic opportunities.

Labor, however, has the power to abstain from wage increases which merely result in a continuation of the inflationary spiral. The exercise of such restraint would result in innumerable benefits. It would be comparable to the achievement of social reform and betterment through the endeavor by each individual to become a better person. Self-improvement in this manner is the most assured way of achieving social improvement. It is far better than the attempt by some to control others or to impose their wishes on others.

Along these lines of self-righteousness, it would be prudent for some organs of the press to cease beating the drums for a cut in steel prices, because it implies that this too can be financed out of profits. Such implications provide precisely the assistance which labor strategists use to their advantage.

OF COURSE, as technological improvements and mechanization continue, the reduction of production costs can and should be shared by the owners of capital, by labor and by consumers. However, the allocation of such shares can be determined only by the consumer. As his demand increases, perhaps in response to changes in price, the resulting increased demand for more labor and more capital and raw materials will make possible increased payments to these factors, all out of reduced costs per unit produced.

A price cut which eliminated profits would have the same harmful effects on investment and further production as an absorbed wage increase. With the country short of capital, curtailed largely by heavy military spending and foreign assistance, the resulting further curtailment of capital formation would be most serious. For this reason some of the best economists in the country have accepted the need for moderate inflation, resulting in forced savings and higher profits than would otherwise be obtained, to finance the necessary investment for our expansion. Other economists, nevertheless, have argued that voluntary savings without inflation could finance the needed investment with less risk to the economy.

This risk stems from the process of discounting future inflation by demanding high interest rates in return for the use of savings. However, this tends to increase the costs of investment and all costs generally, resulting in a further discounting or adjustment of demands in the light of inflationary expectations. The process is cumulative and demoralizing. It can help the patient but it can also kill the patient if used too much.

It is unfortunate, indeed, that workers are not fully aware of the role of profits in increasing their real income. For example, one may well be amazed at the tremendous increase in employee compensation relative to profits during the past ten years. Corporate compensation including fringe benefits paid to employees was $90 billion in 1948 and increased to $158 billion in 1958. Corporate after-tax profits, however, were $20 billion in 1948 and $18 billion in 1958.

THE AMAZING INCREASE in the share going to employees, especially relative to the share going to profits, could not have resulted from a wage-price

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squeeze on profits. The substantial increase in labor purchasing power could not have resulted from a confiscation of profits. Yet, arguments have been given to increase purchasing power at the expense of profits. This is impossible since the beginning of a wage-price squeeze means the beginning of excessive unemployment. Thus, the greatest caution must be exercised against sacrificing production, employment and investment at the altars of fallacious ideas of ways to increase purchasing power. The best precaution is to avoid any method which results in a cost-price squeeze, which means precisely a profit squeeze.

Surveys are constantly made of investment plans. These surveys show that the plans call for increases in investment when profits are up and decreases when profits are down. The experience of the recent recession and recovery bears this out. One way of getting another recession is to discourage the investment which is getting us out of the recent recession.

Even statist-minded officials in England have become aware of these basic principles of practical economics. They have recently offered substantial tax concessions to encourage investment. Also in the United States Congress, an increasing awareness is developing that a complete tax overhaul to encourage investment is long overdue. A comprehensive operation is already under way towards this objective. The recent strategy of labor places this in jeopardy.

Germany has experienced the greatest industrial recovery in recent years of all industrialized countries by recognizing fully the role of profits. Replacement rather than acquisition costs are used to determine allowable depreciation setasides. In addition, fast tax write-offs are permitted for new capital formation.

The United States officials engaged in military procurement have also become aware of the important economic function of profits in cost reduction. It is actually penny-wise and pound-foolish to restrict profits at the price of greatly inflated costs. The saving realized in a profit squeeze is a fraction of the unnecessary costs that result from such a squeeze. This situation has prompted many executives in industry to comment that if the production of civilian products were as inefficient as the production of military products, especially those on cost-reimbursement contracts, the civilian operations would go bankrupt.

The restriction of profits on private account as on Government account would result in the "selling of costs" rather than the selling of productive goods and services. Such a situation would result in a declining level of real output relative to the increasing population. The standard of living per person would deteriorate. The hopes and aspirations of Americans for a better life would be shattered.

One of the first civilian industries to suffer would be housing. Savings are already so scarce than many homeowners are having to pay as high as 7 per cent interest on their mortgages. To reduce savings further by reducing profits would make borrowing for the purchase of homes almost prohibitive. The Government would be called upon to coerce the people to save through taxation used to finance subsidized housing, which in the final analysis is no subsidy at all, since the amounts by which the interest payments are reduced would equal the amounts by which taxes are increased.

Other industries would experience price increases as the supply of goods relative to demand decreased. The greatest weapon against inflation, namely, increased production, would be lacking. Even with price controls (including wage controls) the effective prices would exceed ceiling prices as consumers bid up prices and diverted supplies into the illegal free markets. And as labor petitioned Government to permit wage increases (and price increases), these increases would be financed out of fiat money, with constantly declining purchasing power. The road would lead to a breakdown of the economic and political system. A return to the gold standard would be a most welcome step. However, and most unfortunately, the "man on horseback" will have become a reality.

THESE FRIGHTENING AND UGLY REALITIES have occurred in history and will occur again. They start from rather innocent-appearing beginnings. Often, the persons contributing to the catastrophic deluge are well-meaning, not realizing that they are taking cues from the more sinister or the more cynical. For example, how many workers realize that Karl Marx stated that since all value was created by labor, then profits can only arise by paying labor less than it produces? Yet, the implicit rationale for profit encroachment is precisely this type of fallacious philosophy which has brought irreparable harm to the world already. Similarly, how many workers realize that the more recent English economist, Keynes, assumes that too much savings were not invested at all but only hoarded in the form of cash, rather than invested in capital purchases for the creation of jobs? Naturally, persons with a perverted envy and anti-capitalist mentality will use fallacies such as the above. However, a person who observes the amazing state of our capital development and standard of living will see quite clearly the fallacies of Marx and Keynes regarding profits and savings.

Finally, it is dangerous indeed for the public to

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accept statistics showing short-run increases in profits as indicative of excessive profits. An example of such an increase is in the steel industry. Part of the recent increase in these profits is merely coincidental with the increase in sales due to temporary inventory accumulations; part of the profit increase is seasonal perhaps; part of it is cyclical representing a recovery from recession; and, the balance, if any, should be secular, reflecting changing technology in the form of increased capital usage per unit of labor, due to more and better machines.

In addition, many persons who use particular profit ratios for concluding that profits are too high fail to recognize the utter lack of comparability that exists between industries and companies. While profits may suggest the success of a specific company during one period, such inferences are not valid when making comparisons among firms and industries. Numerous factors have to be considered, such as the capital structure, capital turnover, type of product, nature of market, and competition, etc. Profits are difficult to interpret and dangerous to grab at.

Workers pay 5-6 per cent commissions on sales of homes and much more for other services. It seems unreasonable to oppose a similar return in the form of profits for the tools that make their jobs possible in the first place. The fact that workers no longer have control of their union is no excuse, certainly not when strikes ensue and business has to fight for its very existence as well as independence.

In the case of the steel industry, the appearance of high profits for the first few months of 1959 on the part of a few companies is no guarantee that these companies can pay current wage demands out of the profits realized next year and the year after, etc. Also, the below average steel producer, mostly the non-integrated firms, cannot pay a wage increase out of even currently earned profits.

The below average firm cannot pay a wage increase without a price increase except to the extent that cost-absorption is carried out by labor itself through the elimination of featherbedding restrictions. Finally, the above average firm will continue to replace labor with further mechanization at a cost of between $50,000 and $75,000 per employee, which over the life of any specific mechanization is quite clearly far below the existing labor cost over the same period.

HUMAN EVENTS was founded in 1944 by Frank C. Hanighen. It is published weekly at 408 First Street, SE, Washington 3, D.C. and reports from Washington on politics, business, labor and taxes. It is usually published in two parts: a 4-page news section and a 4-page article. $11 per year.
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